



The Stop & Shop Companies, Inc.

The Stop & Shop Companies, Inc., is a diversified retailer, headquartered in Boston, Massachusetts. It operates a total of 336 supermarkets, discount department stores, drug stores, and tobacco shops in New England, New York and New Jersey, and women's specialty stores in Pennsylvania, New Jersey and Illinois. Founded in 1914 as a chain of food stores, in 1961 it entered the discount department store business represented by Bradlees and in 1967 further diversified into the super discount drug store business as

Medi Mart. In 1969 the Corporation acquired the Charles B. Perkins Tobacco Shops, a specialty tobacco retailer which has tobacco shops in leading East Coast malls and maintains licensed departments in many Bradlees stores.

During 1978, Stop & Shop founded Off the Rax, a chain of women's specialty stores, expanding its trading area beyond the Northeast.

The Corporation operates extensive food processing facilities including a bakery, commissary, dairy and modern central meat processing facility. These manufacturing operations, together with the company's photo finishing plant, form a separate division, the Stop & Shop Manufacturing Company. The Stop & Shop Companies, Inc., employs 27,000 people and has approximately 6,000 stockholders of record. Its stock is listed on the New York and Boston Stock Exchanges.

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The Stop & Shop Companies, Inc. and Subsidiaries
Comparative Highlights*

(Dollars figures in thousands except those stated on a per share basis)

53 Weeks Ended
February 3, 1979

52 Weeks Ended
January 28, 1978

Sales:

| | | |
|--|---------------------------|--------------------|
| Stop & Shop Supermarkets | \$1,174,140 | \$1,086,824 |
| Bradlees Department Stores exclusive of licensee sales | 493,033 | 444,984 |
| Medi Mart Drug Stores | 81,241 | 68,470 |
| Charles B. Perkins Tobacco Shops | 11,455 | 11,245 |
| Off the Rax Women's Specialty Shops and other | 2,275 | 46 |
| Total | <u>\$1,762,144</u> | <u>\$1,611,569</u> |

Earnings:

| | | |
|----------------------------|------------------|-----------|
| Net Earnings | \$ 16,021 | \$ 11,788 |
| % of Net Earnings to Sales | .91% | .73% |
| Net Earnings Per Share | \$ 4.00 | \$ 2.97 |

Dividends:

| | | |
|---------------------------|-----------------|----------|
| Cash Dividends Paid | \$ 4,208 | \$ 3,974 |
| Per Share of Common Stock | \$ 1.05 | \$ 1.00 |

Working Capital

| | | |
|----------------------|-------------------|------------|
| Current Ratio | \$ 85,502 | \$ 81,225 |
| Stockholders' Equity | 1.65 to 1 | 1.78 to 1 |
| Book Value Per Share | \$ 117,267 | \$ 105,054 |
| | \$ 29.19 | \$ 26.38 |

Per Share of Common Stock*

| | Earnings | | Dividends | | Market Price | |
|----------------------|----------------------|---------------|----------------------|---------------|-----------------|-----------|
| | 1978 | 1977 | 1978 | 1977 | 1978 | 1977 |
| First 16 Weeks | \$.21 | \$.26 | \$.25 | \$.25 | \$15½-13 | \$16½-15¼ |
| Second 12 Weeks | .67 | .02 | .25 | .25 | 17½-14½ | 15½-14½ |
| Third 12 Weeks | .51 | .40 | .275 | .25 | 20¾-14¾ | 14¾-12¾ |
| Fourth 13 (12) Weeks | 2.61 | 2.29 | .275 | .25 | 17⅝-14⅝ | 14¾-12½ |
| | <u>\$4.00</u> | <u>\$2.97</u> | <u>\$1.05</u> | <u>\$1.00</u> | | |

*After restatement for change in accounting method for leases.

Letter to Stockholders and Employees



Sidney R. Rabb

We are pleased to report that in 1978 The Stop & Shop Companies, Inc., reached the highest level of sales and net earnings in our 65-year history. We are especially proud of our people's accomplishments, because the environment in which they operated was neither placid nor easy. In fact, the year was one of economic turmoil for industry in the Northeast. Although general merchandise costs and prices increased at a lower rate than did the Consumer Price Index, inflation in food, drugs, housing and energy crept steadily toward double digit figures. Competition remained intense in all retailing sectors. This was particularly true in the retail food business, where margins generally remained depressed as retail prices did not reflect continuous increases in wholesale costs.

The introduction of Voluntary Wage & Price Guidelines, growing governmental involvement in the conduct of the business, and mounting restlessness among the consuming public added to a general mood of uncertainty.

The legendary "Great Blizzard of '78" belatedly welcomed the New Year in the Boston area, creating extraordinary pressure on all of our operations to "catch up" in the remaining quarters. And the year



Irving W. Rabb

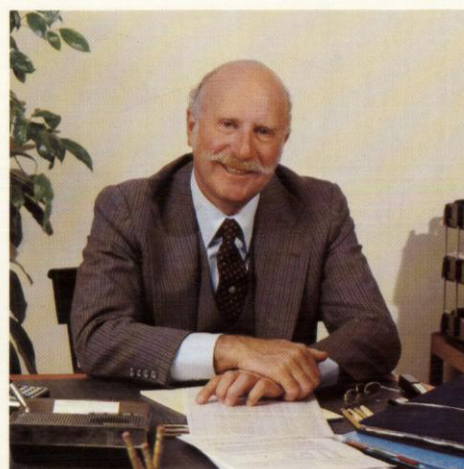
ended with our newest venture of women's specialty stores, Off the RaxSM, experiencing unprecedented harsh weather in Chicago.

Despite these circumstances, net earnings for the 53-week fiscal year totalled \$16,021,000 or \$4.00 a share, contrasted with \$11,788,000 or \$2.97 a share for the 52-week fiscal 1977. Both years' figures have been adjusted for accounting changes in accordance with the Financial Accounting Standards Board, Statement No. 13 (FASB-13).

1978 sales were \$1,762,144,000 (53 weeks), compared with 1977 sales of \$1,611,569,000 (52 weeks). For the year, sales of the Supermarket Company were \$1,174,140,000, and sales of the General Merchandise Companies were \$588,004,000, representing 66.6% and 33.4% of total sales respectively. In terms of operating profit contribution, however, General Merchandise accounted for 66.0% and the Supermarket Company 34.0%.

From a cash management point of view, we experienced excellent liquidity throughout the year. As a result, we employed no short term debt and were able to keep our own funds profitably invested on a short term basis, thus benefiting from the national increase in short term interest rates.

Once again, the diversity of our retail companies added stability and strength to our financial results.



Avram J. Goldberg

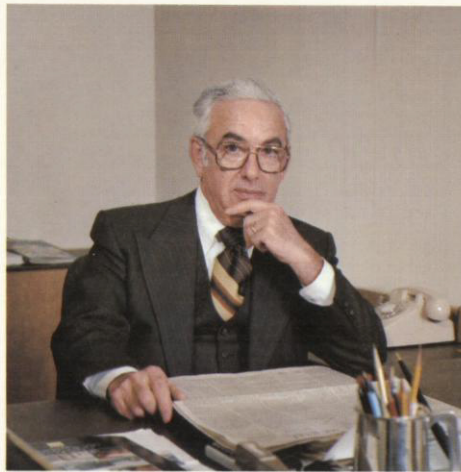
Bradlees Department Stores enjoyed a year of record sales and operating profit contribution. While we are still aggressively stretching toward our present goal of \$120 per square foot of sales area, we did reach a new plateau of \$99, up from \$90 in 1977. And even more important, in 1978 our merchandising and operating groups developed far better techniques of converting our continuing sales momentum into an improved profit performance.

Last year we reported to you how enthusiastically our customers responded to the innovative merchandising concepts utilized in our latest prototype stores. In 1978 those concepts were reflected in our two new Bradlees, and in 13 remodeled stores (five of which reopened on the same day). The results were overwhelmingly positive, and reinforce our belief in the Bradlees merchandising and display techniques. Two new stores scheduled to open this year, in Kingston and Medford, Massachusetts, will also be designed around the prototype, as will the 10 to 15 remodels scheduled for 1979.

Despite the ongoing dislocations and challenges characteristic of the retail food business in 1978, our Supermarket Company improved its operating profit contribution over 1977. Our people continued to maintain our share of the supermarket business in our trading areas, and through ongoing innovation, imagination and experimentation, are



Anthony DiNardo



Albert S. Frager



Carol R. Goldberg



Robert J. Levin

meeting the demands created by the shifting and changing economic and consumer environment.

Growing concern about inflation gave further impetus to our experiment in "warehouse" food operations. In 1978 we converted two supermarkets in the area to Economy Food Outlets, bringing the total number to seven. We are cautiously measuring the status and acceptance of "warehouse stores", since there is still great question indeed as to what factors make them successful in some geographic areas and less so in others.

In 1978 we opened two new supermarkets in New Britain, Connecticut and Vailsburg, New Jersey, completed a major enlargement of our Concord, Massachusetts store, and remodeled eight other stores

throughout the Supermarket Company. In line with our policy of closing unprofitable units and those that do not fit our criteria because of limitations on growth, we closed four stores — two in Massachusetts, one in Connecticut and one in New Jersey.

Our Manufacturing Company significantly increased outside sales of both meat and manufactured products. Overall sales of our Marlboro Meat Processing Facility in Marlboro, Massachusetts, reached new levels, despite a national trend downward in beef consumption.

Conscious of growing consumer concern about nutrition and obesity, the Manufacturing Company introduced two new products, Formula 14 frankfurters and bologna. These unique items are 30% lower in fat and provide a tasty and healthy alternative for our customers.

Our Photo StopSM parking lot kiosk experiment, introduced last year, produced a beneficial amount of

additional volume for our Color Photo Finishing Laboratory in 1978. By the end of the year, we had opened ten more Photo Stops in Massachusetts, bringing the total to 13 kiosks. In addition, photo finishing services are available at all Bradlees, Stop & Shop Supermarkets and Medi Mart Drug Stores.

In 1978 we opened five new Medi Marts (in Arlington, Massachusetts, West Hartford, Connecticut, and Fort Lee, Fairlawn and Vailsburg, New Jersey), bringing the total to 44. From a point of view of contribution to profit, however, the year was a disappointing one, although we are encouraged by improvements in our fourth quarter. This past year we emphasized the company's need to increase customer traffic and sales per square foot. Toward this end, we undertook aggressive prescription drug pricing programs and strengthened our overall advertising and merchandising efforts. Our new pharmaceutical redistribution center, located in Everett, Massachusetts, improved our operating efficiency and helps provide for continued growth.

Our Charles B. Perkins Tobacco Shops had a profitable year resulting in a good return on investment. We expanded our line of non-tobacco items, including adult games, gifts and leather products. Our direct mail campaigns, in late summer and just prior to Christmas, contributed to the sales of specialty tobacco products to selectively identified tobacco users. Our people are concentrating on developing this new concept of tobacco and specialty gift items combined for Perkins, and we look forward to more progress in 1979.

At last year's Annual Meeting, we announced the launching of our newest venture, Off the Rax, women's specialty apparel shops. Thereby, we not only introduced a new operating company to the Stop & Shop family, but also introduced The Stop & Shop Companies to the Chicago and Philadelphia markets.

By the end of the year, we were operating seven Off the Rax stores in the Chicago area, and five in the Philadelphia area. Rapid inventory turnover, timely buying decisions and low operating costs make possible substantially lower prices for quality brands of fashionable clothes available through our Off the Rax stores.

The new company is managed by a proven team of professionals: David Goldman, formerly President of Hit or Miss Specialty Stores, functions as President; James McGowan, formerly with Bond Industry, is Executive Vice President, Finance, and Treasurer; Morton Friedman, the founder of Hit or Miss and a participant in the development of Pic-a-Dilly Stores of California, rounds out its senior management team.

More stores are planned for 1979 in the Chicago and Philadelphia areas. Further, we will expand the chain into another new region this year – the Washington/Baltimore marketplace.

A company is more than what the public sees, or what is reflected in a financial statement. Corporate growth can be sustained only by the contributions and efforts of people – who in turn must have both the capacity and opportunity to grow as individuals and members of the management team. As we prepare to enter the 1980's, we recognize the need for an even greater degree of strategic planning, and the sharing of management decision-making responsibility.

Through this past year, we have taken major steps to give greater depth to our organizational structure.

On March 7, 1979, we announced the establishment of a new senior management organization. Called the Executive Management Committee, this new group consists of: Sidney R. Rabb, Chairman of the Board; Irving W. Rabb, Vice Chairman; Avram J. Goldberg, President; and four Senior Vice Presidents reporting to the President. The new Senior Vice Presidents are corporate officers with broad decision-making power. They all have long and proven experience within The Stop & Shop

Companies. They are: Anthony DiNardo, previously Vice President, Personnel; Albert S. Frager, previously Treasurer and Chief Financial Officer; Carol R. Goldberg, previously President of the Stop & Shop Manufacturing Company; and Robert J. Levin, previously Group Vice President, General Merchandise Companies.

This step forward will provide us with substantial management depth, improve the decision-making process and as a consequence result in added effectiveness in taking meaningful action, the hallmark of a retailing company. We believe all this reflects the sense of thrust and movement already growing in the company – as we continue to examine aggressively new opportunities for growth now and in the years ahead.

In addition to the creation of the Executive Management Committee, we made several other important organizational moves during the course of the year.

In September, Philip J. Hiscock was appointed Vice President and General Manager of Medi Mart Drug Stores. Mr. Hiscock was formerly Vice President and Director of Stores for Bradlees.

In November, four other major management changes were announced. Bernard A. Goldman was appointed Vice President, External Sales Development. Prior to his appointment, Mr. Goldman served as Vice President of our Manufacturing Division.

Timothy A. Hays was appointed Vice President, Financial Management and Administration for the Stop & Shop Supermarket Company. He previously served as Vice President and General Manager of the Charles B. Perkins Tobacco Shops.

Jack Kushinsky was appointed Vice President, Manufacturing Division. His previous position was Vice President, Financial Management and Administration for the Supermarket Company.

And Seymour L. Silverstein was appointed Vice President and General Manager of Charles B. Perkins Tobacco Shops, following his tenure as Vice President, Medi Mart Drug Stores.

Our operating companies also took several organizational steps for improved efficiency and speed of action.

Bradlees reorganized its market structure into three regions, each headed by a Regional Manager. This new arrangement will enable Bradlees to maintain greater consistency of product presentation, promotional activity and merchandising.

The Supermarket Company reorganized its grocery buying operation to achieve greater flexibility, creative merchandising and sales planning, and to improve tracking, delivery, replenishment, and out of stock control of product. The new structure separates the buying and replenishment functions and realigns the responsibilities of the managers involved.

The Supermarket Company's field organization was further streamlined by combining the reporting responsibility of the New York/New Jersey and Connecticut Supermarket Divisions, under Lewis G. Schaeneman, Vice President and General Manager.

In the past decade we have witnessed dramatic changes in our social, economic and population structure. As a result, a corporation's public and social responsibilities are today a uniformly recognized concern of top management and the Directors of any public company. In 1978, our Board of Directors approved a comprehensive Code of Ethics, which sets forth uniform high standards of behavior and conduct for all employees.

In recognition of our further need to professionalize our activities and to meet the challenges of the 1980's, we have established two new positions.

Samuel W.W. Mandell, formerly Director of our Legal Department, was appointed Vice President, Law. Mr. Mandell joined The Stop & Shop Companies in 1974.

Ellen Zawel Dubin, who had served as a consultant to the corporation, was appointed Vice President, External Affairs, and Chairman of our Public Policy Task Force.

Inflation and energy issues greatly influenced the public policy environment, as did concerns about nutrition and its relationship to health. The public, while supporting regulation in the areas of health and safety, expressed a much more jaundiced point of view of government involvement on the economic front. Proposition 13 passed in California, and tax fever moved across the country in a variety of forms. In Massachusetts, voters adopted Referendum Number One - Property Tax Classification, a reaction to the impact of court-ordered 100% property assessment. The Referendum establishes the concept that business, commercial, industrial and residential property should be taxed at different rates. The rates themselves will vary from city to city, and we can not yet measure the impact of this legislation.

Amendments to the Federal Age Discrimination in Employment Act extended the permissible compulsory retirement age to 70. As a result, we have re-evaluated our employee benefits and retirement programs. Most of them will not be affected. However, some changes in both medical and retirees' life insurance were required to keep the systems well financed. Several other areas of our benefits package will be monitored for quick action as the impact of the new law is clarified.

We have supported the basic premises of President Carter's inflation-fighting efforts. As buying agents for the consumer, we have monitored and forced adjustments, where possible, of unjustified supplier-induced price increases, and have held down operating costs through internal management controls.

Further, we are pleased to report that while negotiating fair but reasonable labor agreements, we were able to stay within the Presidential guidelines, at the same time trying to meet the needs of our associates in these economically hard-pressed times. Since our last Annual Report, we completed negotiations with unions representing employees in our stores, distribution centers and manufacturing facilities. The result

was a total of seven new labor contracts, with one completed in 1979.

It is always a pleasure to report recognition by others of the expertise and excellence of our management people.

Harold E. Fine, Vice President, Construction and Engineering for The Stop & Shop Companies, was appointed by Secretary Schlesinger to the Food Industry Advisory Committee of the Department of Energy.

Carol R. Goldberg, Senior Vice President, was appointed to the Board of the Federal Reserve Bank of Boston, filling the seat of William G. Miller who resigned to become Chairman of the Federal Reserve Board.

On November 19th, a standing-room-only crowd gathered at the dedication ceremony of the Albert S. Frager Hillel House of Northeastern University, an honor justly bestowed upon our new Senior Vice President.

While 1978 brought new roles and faces to our management team, it also meant the loss of trusted and valued associates who helped build the company we have today.

On the day of our Annual Meeting, Donald A. Gannon will retire from our Board of Directors, on which he has served since 1959. Mr. Gannon joined Stop & Shop, Inc., in 1941, and served as President from September 1965 until his retirement in 1971. His contribution to the growth, stability and vitality of The Stop & Shop Companies is neither easily described nor overstated.

In July, Peter J. Solomon, who had served as a member of our Board of Directors since 1972, resigned his position as a result of his appointment as Deputy Mayor for the City of New York.

In June, Arthur Norris, Vice President for Technological Development and Quality Control for the Corporation, retired. Mr. Norris had joined the company in 1959 and spearheaded our entry into food processing and modern quality control.

Raymond J. Doyle, Vice President and Merchandise Controller for Bradlees, retired in March 1979. Mr. Doyle had served with the Company since 1966, during which time he saw the Bradlees Company grow and prosper.

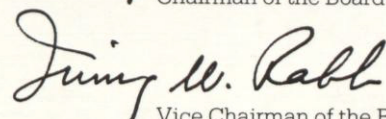
We lost two dear friends and valued associates in 1978. William Applebaum passed away on September 24th. For 40 years we benefited greatly from his knowledge and experience. He established our Research Department and served us in many capacities until he became Assistant General Manager of the Company. He was a member of the Board of Directors from 1940 until his retirement from the Board last May.

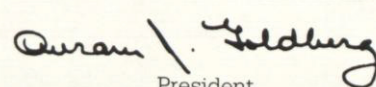
And on November 29th, Donald J. Hurley died. Mr. Hurley, who served as General Counsel for the Company, was appointed to our Board of Directors in May 1967. A wise and decisive advisor, he had that rare combination of compassion, imagination and precision which made him a tower of strength to all who worked with him. Both Mr. Applebaum and Mr. Hurley will be sorely missed.

1978 was another year of growth for The Stop & Shop Companies, both as a business and a human institution. It was a year in which we "geared up" for the decades ahead. Yet we still remain committed to the philosophy which has brought us to this stage of our development, after 65 years of success and contribution. The welfare of our stockholders, our customers and the communities in which we function will always depend upon the people who run our stores and face our customers daily; and on the rest of the 27,000 who work together to give The Stop & Shop Companies life and breath. To each, we want to give our thanks.

The actions taken this year, and those to be taken in the years yet to come, will always be designed to maximize the potential of our people. We take pride in them and their accomplishments. And, in their name we thank you, our stockholders, for your continued support.


Chairman of the Board


Vice Chairman of the Board


President

**Stop & Shop
Supermarket
Company**



Sidney L. Goldstein

Our Stop & Shop Supermarket Company continues to strive to meet the needs of our segmented consumer population. Changes in family structure, increasing single member households of both young and old, growing numbers of working women, combined with financial pressures, have created new demands on our Supermarket Company.

It has long been our philosophy to provide the widest selection available in fresh, processed, frozen and convenience foods to our customers, and to seek out and pass along the best value. In a year such as 1978 where inflation cut deeply into buying power, maintaining our philosophy and responding to the challenge created by this environment often seemed an overwhelming task. With the guidance of Sidney L. Goldstein, our people met the charge creatively and developed several innovative programs to help our customers cope.

In June, we introduced our ECONOMY line of generic grocery and non-food products. Easily identifiable by their plain black and white packaging, this line won quick consumer acceptance and was expanded to include 67 items by year's end. These standard grade items represent wholesome, utilitarian alternatives to both private label and national brands, and provide another choice for the economy minded, brand independent consumer.

Last December, in a move we considered to be of far-reaching significance to consumers and supermarkets alike, we inaugurated the first system of supermarket banking in the Northeast. In cooperation with Freedom Federal Savings & Loan Association, basic banking services are offered to customers in our Watertown and Somerville, Massachusetts, Stop & Shops. We consider supermarket banking, because of the

convenience and security of the location, another means by which we can help consumers simplify their lives.

We expanded our efforts for controlling operating costs and improving efficiency through energy conservation programs and new installations of electronic cash registers. In our continuing attempt to minimize the costs of retailing, we plan installations of electronic front-end scanning equipment in two of our supermarkets. These systems are designed to improve efficiency, inventory control and stock rotation and to provide valuable data on consumer preferences and purchases. If the experimental phase proves successful, we will expand our efforts in this area.

Our goal is to keep shopping at our supermarkets a welcome and enjoyable experience. To this end, we continue to upgrade and remodel our stores with lively, colorful and innovative merchandise presentations. We are committed to providing our customers with information necessary to make the most fully-informed selections. Our people are warm and friendly, our products are guaranteed for satisfaction and our eyes are always looking ahead to the future—to respond.



Stop & Shop Manufacturing Company



Blaine B. Breidenstein



Bernard A. Goldman



Jack Kushinsky

In 1978, we began to see the results of our foundation building of the past two years. Now that our manufacturing facilities are merged into the Stop & Shop Manufacturing Company, we have the capability, both in professional management and organizational structure, to develop the products and services required by the customers of the Stop & Shop Supermarket Company and of our other customers — wholesalers, retailers and food service institutions.

Their needs are diverse, reflecting the demand for economy in basic foodstuffs, variety and convenience in processed foods and new products that meet the challenges presented by a nutrition and health conscious public.

In the face of complexities inherent in the processing of meat, and of beef particularly, we took several steps for production economy. We increased our emphasis on the sale of centrally processed "boxed beef". We eliminated our young beef line of products in favor of a selection of choice beef products because of decreasing supplies and increasing costs associated with "lean beef". These actions were met with wide consumer acceptance and permitted more appropriate pricing schedules. Improved quality control, consistency of product and cost efficiency led us to add ground beef in tubular packages called "chubs" to our hamburger line.

Our fresh pizza production resulted in sales of over two million pizzas in 1978. The consumer who seeks the benefits of convenience, flavor and value typically associated with "fast foods" will find it at a fraction of the cost, and with added pleasure by shopping at the "Stop & Shop Pizzeria" — the supermarket shopper's answer to eating on the run.

We are always sensitive to changing tastes and varied appetites and added a new French bread pizza product to our line in early 1979.

With the expansion of our Readville dairy, we will be able to install blow-molding equipment for our one gallon juice and milk containers. Our record sales volume in orange juice this past year, despite increased costs in both concentrate and retail prices, indicates growing consumer acceptance of juice products as all day beverages.

Despite the rapid growth of instant camera sales and mini lab installations, our Color Photo Lab had yet another record volume year in photo finishing. To provide us with the flexibility for future growth in this venture, we are installing a new computerized pricing and billing system.

Our new on-site computerized ordering, billing, sales analysis and planning system, successfully installed at the beginning of the year, and the major management restructuring described in our stockholders' letter, work synergistically to maximize strategic planning and timely decision making.

During the year we moved to decentralize responsibility for each plant and, to that end, appointed William Tully, formerly Director of Operations, Manufacturing Division to the position of General Manager, Bakery.

Charles Arbing, formerly Dairy Plant Superintendent, was named General Manager, Commissary/Dairy.

In 1978 we geared up operationally for growth in outside sales and improved service to our stores, both with better product and timely delivery. In 1979 we will emphasize product development with coordinated efforts for all our plants to provide a wider selection and product mix for the Stop & Shop Supermarket Company and our other customers.



100% pure
PASTEURIZED
orange juice
FROM CONCENTRATE

Stop & Shop

100% pure
PASTEURIZED
orange juice
FROM CONCENTRATE

NET WT. 16 OZ (1 LB)

HOMOGENIZED
PASTEURIZED MILK
VITAMIN D ADDED

Stop & Shop

HOMOGENIZED
PASTEURIZED
milk
VITAMIN D

Stop & Shop

8 frankfurters
RICHED

BIG

ALL-PURPOSE FLOUR

SLICED BREAD

Stop & Shop

meatless
sauce
FOR SPAGHETTI

NET WT. 32 OZ (2 LB)

Stop & Shop

mayonnaise

real
sharp
AGED CHEDDAR
cheese

Stop & Shop Own Bakery

donuts

20%
LEAN
GROUND BEEF

Countryfine

SWEET ITALIAN SAUSAGE

MADE IN MARLBORO, MASS.

KEEP REFRIGERATED

NET WT 12 OZS

muffins

fresh
young chicken
FROM THE STATE OF MAINE

Stop & Shop

over fat
TURKEY BOLOGNA

Stop & Shop Kitchen

JUST HEAT
AND EAT!

PIZZA
WITH CHEESE

OVER 2 MILLION
PIZZAS SOLD!

Countryfine

BRAND

MARLBORO, MASS.

corned
beef
BRISOL

NET WT 12 OZS

MADE IN MARLBORO, MASS.

KEEP REFRIGERATED

CURED WITH WATER,
NITRITE. INSTRUCTIONS
COOKING INSTRUCTIONS
ON BACK OF PACKAGE.

General Merchandise Companies

Bradlees Department Stores



Harold Frank

Our successful Bradlees stores reflect the dynamism, vitality and variety of needs and interests of today's young families and the young at heart.

The Bradlees merchandising concepts, which rely heavily on merchandise assortments structured to current customer demand, are dependent upon our sophisticated ability to achieve early identification of customer needs. Under the direction of Harold Frank, we continue to work to perfect, even further, our methods of presentation in both the apparel and hardline divisions of the store.

The basic store layout formula allocates proportionate space for each merchandise category that is consistent throughout the chain. It is restricted only insofar as individual store designs inhibit conformity.

The plan also positions departments to offer consumers more convenient accessibility in selecting related purchases. For example, we have attempted to develop stores within the store by locating all of our home improvement merchandise in one area, all of our decorative home merchandise in one area and all of our leisure activity assortments in another section.

Fixturing throughout the stores has been increased in height to take advantage of the cubic space in the store in order to reach toward higher sales productivity goals in the future.

Responding to changing consumer demands and purchasing patterns, we expanded many of the stores' departments, including misses and junior fashions, sportswear and accessories. Our new decorative home centers and enlarged housewares and hardware departments are responses to the revival of interest in do-it-yourself home improvements. The domestics division was re-emphasized and highlighted, as well.

We introduced new optical centers in five of our Bradlees stores and expect to add others in the near future. This new aspect of our stores is a result of growing consumer demand for economically priced and efficiently delivered services.

In 1978 we remodeled and expanded the snack bars in several of our stores and offered wider and more appealing menus. The growing trend toward eating out, in part a reflection of the changing role of women, provides an opportunity for us to broaden our activities in the in-store food service departments.

Our regional and district reorganization described in the stockholders' letter provided growth opportunities for several members of our Bradlees management team.

The three newly created regions are managed by John J. Laurendeau, Everett L. Lancor and Philip B. Dolan, all former Market Managers for Bradlees. Reporting to them are: Lona A. Letendre, James J. Folino, George A. Laput, John M. Corbett, Richard M. Dow, Roger J. Devost, Joseph A. Farinelli, Norman I. Chalphin and Eleanor R. Riley, as Market Managers for the new districts.

During the past year, Jeffrey A. Koblick and Marie Adele Ryan were appointed to new positions as women's ready-to-wear Divisional Merchandise Manager and women's accessories Divisional Merchandise Manager, respectively.

As we prepare to enter the next decade, we will continue to keep a pulse on our consumers' changing needs and values and, as we have done before, will respond innovatively and creatively.



Medi Mart Drug Stores



Philip J. Hiscock

Perhaps no other operation more adequately reflects the widely divergent demands of our consuming public than our Medi Mart Drug Stores, headed by Philip J. Hiscock. A careful balance exists for providing the service, friendliness and professionalism of the corner pharmacy with the quality, variety, assortment and economy of today's modern super drug store.

A trip to Medi Mart insures the consumer of an environment that is easy to shop and dynamic in its product mix. Our capability of responding to changing styles and seasons enables us to offer to our customers up-to-date lines of cosmetics, health and beauty aids, greeting cards, toys and candy. Our assortment of household and personal care products offers a mosaic of alternatives to the customer seeking the benefits of low price and breadth of selection in a manageable and intimate atmosphere.

But it is the pharmacy which is at the heart and purpose of our existence. Basic health care finds its end point at our prescription drug counter. Here professional pharmacists fill prescriptions of broad variety—from drug maintenance plans for those with chronic illness such as diabetes, to pediatric cough suspensions.

Concerns about the cost of health care and growing consumer interest in self help and preventive medicine stimulated us to take several responsive steps.

While our regular prescription prices for brand name drugs are kept at the lowest possible price level, we also provide information on the use of quality generic drugs as a means of reducing prescription drug costs.

We attach distinctive warning labels on our prescription containers to advise of the possible reaction between its contents and food or other drugs, including alcohol, to help protect our customers from discomfort and insure maximum medication benefit.

We continue to expand our commitment to our customers with a variety of health services. Last year over 10,000 consumers took advantage of our blood pressure clinics. Similar efforts are underway for diabetes and lead poisoning screenings.

We make available a variety of free health information brochures, provide consumer education on how to shop for a prescription and encourage comparison shopping via telephone.

It is through programs such as these that we maintain our personal relationship with our customers and the communities we serve.

The opening of additional stores in the Connecticut and New Jersey areas prompted us to reorganize our field administration staff. Robert Cronin, former Store Manager of our Wyckoff, New Jersey unit, was assigned as Market Manager of the New Jersey Market. Peter Norcross joined us to assume the responsibility of Health and Beauty Aids Merchandiser.

We look forward to the challenges ahead and continue to seek new ways of meeting the divergent desires of customers while serving their basic health needs.



I DANCED ALL OVER
WHEN I HEARD
YOU WERE
FEELING BETTER.

Russell Stover
CANDIES
THE
Gift

Medi Mart
COTTON
SWABS
SAFETY-FLEX STICKS
EASY-CUSHIONED ENDS

Medi Mart
STANNOUS
FLUORIDE
TOOTH PASTE



Johnson's
Baby
oil

Medi Mart
plastic
strips
with non-stick pad!

Medi Mart
PHONE 282-5246
152933
DATE 2-28-79
John Reed
Centrinin Fed Susp. 4oz
one teaspoon four times

VICKS
Form
44
COUGH MIXT

Vaseline
PURE PETROLEUM JEL
HELPS PREVENT DIAPER

SPRAY
COLOGNE
N°5
CHAN

FAST PAIN RELIEF
BAYER
ASPIRIN

Medi Mart
PHONE 282-5246
152933
Michael Rossi
Aspirin Opi-3
One tablet every
4 hours as needed for
PAIN
DO NOT USE AFTER 6/1/79

Charlie
bath
lover's three
3 FRAGRANT
BODY SILK SOAPS
NET WT. 6 OZ EACH
NET WT. 18 OZ

Silk Fashion
Helena
Rubinstein
1.35 FL. OZ.

Temp
RICCI
New York
STRENGTHEN
AND COLOR
SUPER
NAILS
Natural Women
NYLON

super eyes kit
FEMIN

AZIZA
NATURAL LUSTRE
LIP GLOSS

NIGHT
of
OLAY
TIGHTENING CREAM



Perkins Tobacco Shops



Seymour L. Silverstein

Since its founding in 1862, our C.B. Perkins Tobacco Shops have specialized in meeting the more aesthetic and leisurely needs of our customers. Now approaching its tenth year as a member of the Stop & Shop family, Perkins, under the guidance of Seymour L. Silverstein, is preparing to meet the more sophisticated and complex desires of our rapidly changing society.

A keystone to this effort was the successful introduction of non-tobacco items. We now offer adult games designed to stimulate and capture the imagination, gift items for the home and office, as well as fine leather goods for men and women. These specialty items add texture and color to the sensory impact experienced upon entering a C.B. Perkins Tobacco Shop.

Greeted by the rich aroma of fresh mixtures of fine tobacco, the sophisticated pipe smoker is able to select personally his own mixture of tobacco at our Blended Bar. Customers may also choose from a broad variety of finely crafted pipes, including our latest additions, Bordeaux from France and Oxford from England. A highlight of our year was the demonstration of the craft of Meerschaum carving, a craft handed down from father to son in Turkey and one which took visiting carver Ismet Bekler more than 25 years to refine.

Seeking to bring our customers a variety of goods similar to premium and national brands, we consistently explored our opportunities for private label expansion. This review led to the development of our fine quality imported C.B. Perkins Dominican Republic cigar line, handmade with

long filler tobaccos. Honoring our founding year, we developed the "1862" cigar, enhanced with individual tube packaging. And, in our private label domestic cigar category, we introduced Custom Longfellows and Palmers as additional alternatives for the discriminating cigar smoker.

As part of our effort to reach continually new customers and service those far-away, we expanded our direct mail sales program and mailed four-color brochures during the summer months and holiday season. We are pleased with the response to our marketing efforts.

In 1978, we reaffirmed our commitment to professional management and personalized customer service with the creation of an Operations Department and the appointment of David Herrick, formerly a field supervisor, as its director.

In addition to our free standing and mall stores, we are continuing to experiment with the integration of Perkins Tobacco Departments within our Bradlees Discount Department Stores.





David Goldman

The 1970's permanently altered the nature of our social structure. Changes in the role of women at home and in the marketplace offered new challenges and opportunities for the retail sector. To meet the growing demand for quality fashion merchandise for the price conscious and active woman, we embarked on our newest venture, Off the Rax women's specialty stores. We opened 12 stores this year, featuring up to date contemporary styles in women's clothing and accessories. All are located in easily accessible community-based sites serving both the urban and urbane.

Comfort, individual privacy and integrity have not been sacrificed to price and value. Rather, the color scheme, carpeted floors and private dressing rooms add warmth and comfort to the ease of shopping, selective merchandise presentation and friendly service.

Our low prices are the results of timely purchasing, carefully controlled margin structures, rapid inventory turnover and low operating costs. Under the experienced direction of David Goldman, we marshalled a professional management team and developed systems and controls capable of sustaining initial operations and allowing for the anticipated rapid expansion in the years to come.

Our team was rounded out by: Alan Aronow as Vice President, Real Estate and Development; William Cass, Vice President, Merchandise Planning; and Stanley Kramer and Moggy Mann, experienced buyers, who joined us in this new venture.

Efficient use of the Stop & Shop corporate Information Systems Division permitted us to develop a model store and an integrated data base for information retrieval and inventory control. These "start-up" efforts will facilitate the rapid growth of the chain and our planned entry into new and diverse market areas.

Off the Rax is the newest and most novel representative example of our ongoing attempts to predict and respond to the desires of our customers.

FOUR



On 60 Years...

Sidney R. Rabb, or "Mr. Sidney" as he is familiarly known, marked his 60th anniversary with The Stop & Shop Companies in 1978. From the time he joined the small family business in 1918, Mr. Sidney set a course of action that has resulted in the finest blend of business acumen and social conscience. Fearless pioneering combined with a personal philosophy of social responsibility earned Mr. Sidney the reputation as a maverick in the industry. His beliefs that people are our most important asset and that a successful business creates opportunities for leadership embody our philosophy of corporate citizenship as it relates to our employees, our customers and the communities we serve individually and collectively.

"We have always been firm believers that any business, in order to survive and achieve success, must have a sound set of principles on which it premises all its policies and actions... and for 60 years, there's been a faithful adherence to those beliefs by those who have shared in the management of Stop & Shop. These beliefs are demonstrated in practice and have taken firm root in the minds of our people, providing a solid foundation for 'the way we do things around here.'"

Sidney R. Rabb

"The Way We Do Things Around Here"...Our Philosophy at Work

Human Resources

People Development Committee: In 1978, the People Development Committee met with each division and company head for a second round inventory of our managerial assets. As a result, each division head identified individual development needs in her or his area or company and additional staff needs. Many of our people have been career-pathed in new directions. In addition, we brought in new people with expertise to strengthen our management organization for the coming years. The committee also submitted recommendations on organizational expansion to our top management group and for improved utilization of our total human resources in a coordinated forum.

Code of Ethics: Integrity is not a new standard for us in The Stop & Shop Companies. It has always been our basic strength and the hallmark of our people, our products and our practices. We believe we have an obligation to communicate clearly to our people the standards in which we as a group believe, and which we will maintain. And so this year, the Corporation adopted a Code of Ethics integrating ongoing policies, plus new statements on such subjects as conflict of interest and acceptance of gifts. The formal Code of Ethics cannot cover each and every instance or problem which may occur. An Ethics Committee will rule on these and will from time to time issue internal policy statements relating to specific concerns which may arise.

Job Posting: As part of our continuing commitment to advancement from within, we took action to provide wider opportunities for our non-exempt people. In response to suggestions from the People Development Committee, the Human Resources Department coordinated proposals from each division or company for implementing a job posting program. The agreed upon systems, policies and communications' methods were finalized in January, 1979. Plans were announced in February and implemented in March. The program identifies "hidden talent" within the organization, gives

employees an opportunity to assume some responsibility for their own advancement, and, most importantly, assures equal opportunity for upward mobility for all of our employees.

Store Manager Training: For our Bradlees Discount Department Stores, our Human Resources Group conducted a study of the Bradlees' Store Manager position. Nine group sessions with Store Managers were held to record specific actions the Store Manager takes to accomplish his or her job. 157 "action-statements" were developed as an outgrowth of these sessions. We placed each item (or action-statement) into a questionnaire format to be rated by Store Managers according to "importance to results" and "time spent". The completed questionnaires were computer scored and analyzed. Ten major factors or types of activities emerged. These results are being used as a training guide, a time management tool and as a basis for communicating specific job objectives for fiscal 1979. The questionnaire is a management instrument with the built-in capability of pointing out changes in emphasis and job skills demanded by our ever fluctuating business.

Affirmative Action: In 1973, we instituted a program of Affirmative Action to increase the numbers of and improve our utilization and opportunities for women and minority employees. To this end, we created specific goals and procedures for all job classifications in our 300 plus stores, plants, warehouses and office locations. On an overall corporate basis our progress each year has been gratifying. We are continually evaluating our own program as it reflects the existing status of women and minorities in the communities in which we operate. We can not and will not be satisfied by meeting numerical goals alone. Rather we strive always for the larger social goals inherent in our affirmative action philosophy.

Technical Affairs

Our commitment to quality control is one which has matured along with the growth and development of our companies. In 1960, we initiated a "formal" program in our dairy and

gradually expanded it throughout all of our manufacturing plants, food and general merchandise stores and distribution facilities. During 1978, we expanded even further our quality control efforts in both our food and general merchandise companies. In that time, we: provided for sample testing of hardware, softlines and toys for all of The Stop & Shop Companies; improved sanitation, maintenance and inspection programs for all Stop & Shop warehouse facilities; developed Bradlees modern Quality Assurance program; established testing program for all Bradlees private label and imported merchandise; established Damage and Defective program to monitor customer returns; developed quality specifications and distributed to Bradlees buyers; provided technical seminars for buyers for maximum effective use of new standards; inspected manufacturing facilities of prospective generic drug suppliers to our Medi Mart stores; and reviewed operating requirements and compliance needs of the proposed Federal Model Retail Store Sanitation Ordinance with supermarket managers.

External Affairs

We established a Department of External Affairs as a reflection of our historic commitment to anticipate needs and respond meaningfully to our publics and lead our industry into a partnership with government and the people we serve.

We can not conduct our business independent of our "publics", that is: our employees, consumers, stockholders and government. On the contrary, we are requested increasingly to respond to a variety of social and marketplace concerns. This relatively new shift in the public environment has both a direct and indirect impact on our profitability and corporate success. We realize that social responsibility and profitability must come together. A marriage between social and operating philosophy must exist. The creation of our Department of External Affairs is the first strategic step to meet this challenge. The department's mission is to help develop cohesive and consistent policy and to communicate these effectively.

To help achieve these aims, we have placed under the department's umbrella—the Departments of Consumer Affairs and Public Relations, and the management of the Public Policy Task Force.

Consumer Affairs: "Consumerism is shaking the fabric and foundation of the free enterprise system. It is demanding that it work! Without an informed and selective consumer population the economic structure of our nation will not remain free and open. Consumer choice and confidence lie at the base of a healthy American economy." (Avram J. Goldberg, March, 1979).

It is against this philosophy that our Department of Consumer Affairs took steps this year for refining our consumer input mechanisms. Through sophisticated information tracking and retrieval systems aimed at quantifying important data gathered from our Consumer Boards, customer communications and "Consumerisms", our bi-weekly publication, we will be able to give important and accurate data to our operating companies to help them develop merchandising, buying and policy practices that are consistent with current consumer attitudes, needs and desires.

Under the new organizational umbrella of External Affairs, Consumer Affairs will play an even more important role in the development of corporate public policy, corporate communications and operating decisions.

Public Policy: Last year, we introduced to you our Public Policy Task Force, charged with formulating company positions, policies and actions. This year, the Task Force studied and took positions, either publicly or internally, on the issues of open-dating, backhaul, voluntary wage and price guidelines and Sunday blue laws. We continue to monitor and develop positions in the areas of food labelling, public participation, import and export policy and drug regulation reform.

Five-Year Summary of Sales and Operating Profit Contribution by Major Segments (a)

| Fiscal Year Ended (\$ In Thousands) | 2/3/79 (b) | | 1/28/78 | | 1/29/77 | | 1/31/76 | | 2/1/75 (c) | |
|---|-------------------|--------------|----------------|-------|----------------|-------|----------------|-------|-------------------|-------|
| | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % |
| Sales | | | | | | | | | | |
| Supermarket Company | 1,174,140 | 66.6 | 1,086,824 | 67.4 | 1,013,135 | 68.7 | 978,566 | 72.0 | 894,099 | 73.1 |
| General Merchandise Companies | 588,004 | 33.4 | 524,745 | 32.6 | 461,737 | 31.3 | 381,210 | 28.0 | 329,692 | 26.9 |
| Total sales | 1,762,144 | 100.0 | 1,611,569 | 100.0 | 1,474,872 | 100.0 | 1,359,776 | 100.0 | 1,223,791 | 100.0 |
| Operating Profit Contribution | | | | | | | | | | |
| Supermarket Company | 12,810 | 34.0 | 12,060 | 40.0 | 9,868 | 37.3 | 18,758 | 56.4 | 20,592 | 84.8 |
| General Merchandise Companies | 24,882 | 66.0 | 18,121 | 60.0 | 16,582 | 62.7 | 14,484 | 43.6 | 3,685 | 15.2 |
| Total operating profit contribution | 37,692 | 100.0 | 30,181 | 100.0 | 26,450 | 100.0 | 33,242 | 100.0 | 24,277 | 100.0 |
| Unallocated Expenses - Net | | | | | | | | | | |
| Interest expense - other than mortgages | 3,417 | | 4,372 | | 3,018 | | 1,768 | | 2,071 | |
| State taxes | 2,173 | | 1,868 | | 1,553 | | 2,530 | | 1,373 | |
| Other | 4,425 | | 4,792 | | 4,620 | | 4,373 | | 3,637 | |
| Total unallocated | 10,015 | | 11,032 | | 9,191 | | 8,671 | | 7,081 | |
| Earnings before federal income taxes | 27,677 | | 19,149 | | 17,259 | | 24,571 | | 17,196 | |
| Federal income taxes | 11,656 | | 7,361 | | 6,385 | | 10,552 | | 7,153 | |
| Net earnings | 16,021 | | 11,788 | | 10,874 | | 14,019 | | 10,043 | |

(a)After restatement for change in accounting method for leases. (b)53 weeks. (c)Exclusive of extraordinary income of \$1,886.

| | | | | | | |
|--|----------------|--|---------|--|---------|---------|
| Identifiable Assets: | | | | | | |
| Supermarket Company | 210,735 | | 199,043 | | 189,908 | 181,542 |
| General Merchandise Companies | 181,002 | | 159,131 | | 152,304 | 138,558 |
| Other unallocated | 44,237 | | 43,180 | | 21,091 | 23,592 |
| Total | 435,974 | | 401,354 | | 363,303 | 343,692 |
| Additions of Fixed Assets & Capital Leases: | | | | | | |
| Supermarket Company | 15,340 | | 22,098 | | 19,711 | 16,948 |
| General Merchandise Companies | 14,357 | | 13,002 | | 13,993 | 16,064 |
| Depreciation & Amortization of Fixed Assets & Capital Leases: | | | | | | |
| Supermarket Company | 14,322 | | 14,086 | | 12,568 | 11,630 |
| General Merchandise Companies | 9,894 | | 8,770 | | 8,040 | 7,174 |

Summary of Quarterly Results (unaudited)(a)

| | Net Sales | | Costs & Expenses | | Net Earnings | | Per Share | |
|----------------------|--------------------|-------------|-----------------------------|-------------|---------------------|----------|------------------|--------|
| | 1978 (b) | 1977 | 1978 (b) | 1977 | 1978 (b) | 1977 | 1978 (b) | 1977 |
| First 16 Weeks | \$ 487,036 | \$ 451,166 | \$ 485,680 | \$ 449,460 | \$ 836 | \$ 1,029 | \$.21 | \$.26 |
| Second 12 Weeks | 385,023 | 363,274 | 380,610 | 363,183 | 2,668 | 97 | .67 | .02 |
| Third 12 Weeks | 402,669 | 375,015 | 399,248 | 372,427 | 2,053 | 1,577 | .51 | .40 |
| Fourth 13 (12) Weeks | 487,416 | 422,114 | 468,929 | 407,350 | 10,464 | 9,085 | 2.61 | 2.29 |
| | \$1,762,144 | \$1,611,569 | \$1,734,467 | \$1,592,420 | \$16,021 | \$11,788 | \$4.00 | \$2.97 |

(a)After restatement for change in accounting method for leases. (b)53 weeks.

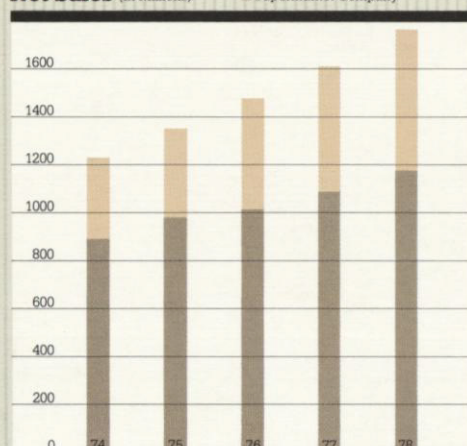
Management's Analysis and Discussion of Operating Results

1978 Compared to 1977

Total sales for the 53 weeks of 1978 increased by \$150,575,000 or 9.3% over the 52 weeks of 1977. Supermarket Company sales increased by \$87,316,000 or 8.0% and sales of our General Merchandise Companies increased by \$63,259,000 or 12.1%. General Merchandise sales rose primarily due to higher sales productivity per square foot of sales area in 1978 compared to 1977. Supermarket Company sales reflect an aggressive promotional, competitive and pricing strategy as well as increased inflation on food prices. Supermarket Company sales in 1978 decreased to 66.6% of total Company sales from 67.4% in 1977, whereas General Merchandise Companies sales increased to 33.4% in 1978 from 32.6% in 1977.

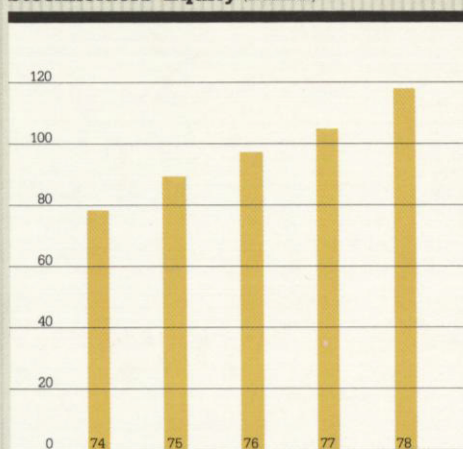
Net Sales (In Millions)

General Merchandise Companies
Supermarket Company



Costs and expenses for the 53 weeks of 1978, after restatement for change in accounting method for leases, increased by \$142,047,000 or 8.9% over the 52 weeks of 1977, a percentage increase of 0.4% less than the increase in total sales. While cost of goods sold increased by \$110,597,000 or 8.8%; selling, operating and administrative expenses including depreciation and amortization increased by \$32,084,000 or 9.9%. Interest on mortgages and obligations under capital leases increased by \$321,000 due to the interest on additional debt exceeding the reduction in interest resulting from the amortization of the existing debt. Other interest, net of income earned on the funds available for short term investments,

Stockholders' Equity (In Millions)



decreased by \$955,000 or 21.8%, the result of increased interest income earned on short term investments at increasingly higher interest rates.

Federal income taxes in 1978 were 42% of earnings before federal income taxes as compared to 39% in 1977. The increase in rate is primarily due to pre-tax profit increasing by 45% while the investment tax credit increased by only 12%.

Net earnings in 1978 were \$16,021,000; an increase of \$4,233,000 or 35.9% over 1977. The operating profit contribution from our Supermarket Company decreased to 34.0% of the total in 1978 compared to 40.0% in 1977. General Merchandise Companies increased to 66.0% of the total in 1978 compared to 60.0% in 1977. Net earnings as a percentage of sales were .91% in 1978 compared to .73% in 1977.

1977 Compared to 1976

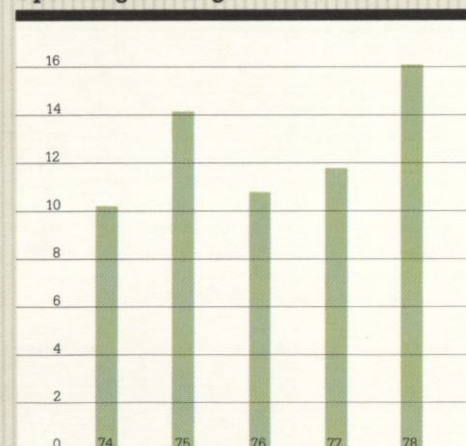
Total sales in 1977 increased by \$136,697,000 or 9.3% over 1976. Supermarket Company sales increased by \$73,689,000 or 7.3% and sales of our General Merchandise Companies increased by \$63,008,000 or 13.6%. General Merchandise sales reflect 11% higher sales per square foot in 1977 compared to 1976. Supermarket Company sales rose as a result of increased marketing activity as well as sales generated in new stores and stores remodeled during the year. Supermarket Company sales in 1977 decreased to 67.4% of the total company sales from 68.7% in 1976, whereas General Merchandise Companies sales increased to 32.6% in 1977 from 31.3% in 1976.

Costs and expenses, after restatement for change in accounting method for leases, increased in 1977 by \$134,807,000 or 9.2% over 1976, a percentage increase slightly less than that of total sales. Operating expenses, particularly payroll and energy costs, continued to rise. Interest on mortgages and obligations under capital leases increased by \$688,000 due primarily to new leases. Other interest, net of income earned on the funds available for short term investment, increased by \$1,354,000 or 44.9% over 1976 due to the takedown of \$20,000,000 in additional funds in 1977 under our existing loan agreement with the Prudential Insurance Company.

Federal income taxes in 1977 were 39% of earnings before federal taxes compared to 37% in 1976. The increase in rate is primarily due to the higher investment tax credit claimed in 1976.

Net earnings in 1977 were \$11,788,000, an increase of \$914,000 or 8.4% over 1976. The 1977 operating profit contributions from both our Supermarket Company and General Merchandise Companies increased over 1976. The operating profit contribution from the Supermarket Company was 40.0% of the total compared with 37.3% in 1976 and the operating profit contribution of the General Merchandise Companies was 60.0% of the total compared to the 62.7% reflected in the prior year. Net earnings as a percentage of sales were .73% in 1977 compared to .74% in 1976.

Operating Earnings After Taxes (In Millions)



The Stop & Shop Companies, Inc. and Subsidiaries
Consolidated Ten-Year Financial Summary

| Fiscal Year Ended | 2/3/79 (a) | 1/28/78 | 1/29/77 |
|--|--|---|-------------------------------------|
| (Dollar figures in thousands except those stated on a per share basis) | | | |
| Operating Results (c) (d) | | | |
| Sales: | | | |
| Supermarket Company | \$1,174,140 | 1,086,824 | 1,013,135 |
| General Merchandise Companies | \$ 588,004 | 524,745 | 461,737 |
| Total | \$1,762,144 | 1,611,569 | 1,474,872 |
| % Increase over prior year | 9.3% | 9.3% | 8.5% |
| Cost of goods sold | \$1,363,896 | 1,253,299 | 1,144,267 |
| Selling and administrative expenses | \$ 331,966 | 301,242 | 279,757 |
| Depreciation & amortization | \$ 18,688 | 17,575 | 16,154 |
| Amortization under capital leases | \$ 5,528 | 5,281 | 4,454 |
| Interest under capital leases | \$ 6,489 | 6,243 | 5,401 |
| Interest expense mortgages | \$ 4,483 | 4,408 | 4,562 |
| Interest expense other (net) | \$ 3,417 | 4,372 | 3,018 |
| Pre-tax operating earnings | \$ 27,677 | 19,149 | 17,259 |
| Operating earnings | \$ 16,021 | 11,788 | 10,874 |
| Percent to sales | .91% | .73% | .74% |
| Percent to common stockholders' equity | 13.7% | 11.2% | 11.2% |
| Earnings per share of common stock | \$ 4.00 | 2.97 | 2.75 |
| Reinvested in the business | \$ 11,813 | 7,814 | 6,913 |
| Dividends (d) | | | |
| Dividends paid | \$ 4,208 | 3,974 | 3,961 |
| Dividends paid per share of common stock | \$ 1.05 | 1.00 | 1.00 |
| Financial Position (c) | | | |
| Fixed asset expenditures (net) | \$ 23,430 | 21,604 | 24,864 |
| Capitalized asset expenditures (net) | \$ 4,215 | 12,663 | 8,002 |
| Inventories | \$ 172,395 | 143,669 | 139,554 |
| Working capital | \$ 85,502 | 81,225 | 61,531 |
| Current ratio | 1.65 | 1.78 | 1.63 |
| Total assets | \$ 435,974 | 401,354 | 363,303 |
| Long-term debt less current portion: | | | |
| For land and buildings | \$ 49,460 | 50,864 | 51,683 |
| For other | \$ 59,068 | 62,746 | 46,770 |
| Capital lease obligations less current portion: | | | |
| For buildings and improvements | \$ 66,810 | 66,351 | 58,421 |
| For equipment | \$ 3,812 | 4,285 | 3,375 |
| Stockholders (c) (d) | | | |
| Stockholders' equity | \$ 117,267 | 105,054 | 97,052 |
| Per share of common stock | \$ 29.19 | 26.38 | 24.47 |
| Number of common shares outstanding | 4,017 | 3,982 | 3,966 |
| Common stock price range - high-low | \$ 20³/₈ - 13 | 16 ¹ / ₂ - 12 ¹ / ₂ | 21 - 13 ¹ / ₄ |
| Stores | | | |
| Stores in operation at year end: | | | |
| Stop & Shop Supermarkets | 157 | 159 | 157 |
| Bradlees Department Stores | 76 | 74 | 75 |
| Medi Mart Drug Stores | 44 | 40 | 35 |
| Perkins Tobacco Shops | 47 | 48 | 48 |
| Off the Rax Women's Specialty Stores | 12 | — | — |
| Square footage - sales area at year end: (In Thousands) | | | |
| Stop & Shop Supermarkets | 2,993 | 2,996 | 2,888 |
| Bradlees Department Stores | 5,237 | 5,160 | 5,243 |
| Medi Mart Drug Stores | 466 | 423 | 378 |
| Perkins Tobacco Shops | 30 | 30 | 30 |
| Off the Rax Women's Specialty Stores | 49 | — | — |
| Total | 8,775 | 8,609 | 8,539 |

(a) 53 weeks.

(b) Exclusive of extraordinary income of \$1,886 (\$.48 per share).

(c) After restatement for change in accounting method for leases.

(d) Per share amounts have been restated to reflect a 25% common stock distribution (5 for 4 split) paid April 1, 1976.

| 1/31/76 | 2/1/75 (b) | 2/2/74 | 2/3/73 (a) | 1/29/72 | 1/30/71 | 1/31/70 |
|---|--|---|---|---|---|---|
| 978,566 | 894,099 | 788,764 | 733,797 | 683,020 | 603,662 | 553,046 |
| 381,210 | 329,692 | 294,193 | 260,672 | 224,714 | 186,288 | 167,432 |
| 1,359,776 | 1,223,791 | 1,082,957 | 994,469 | 907,734 | 789,950 | 720,478 |
| 11.1% | 13.0% | 8.9% | 9.6% | 14.9% | 9.6% | 10.0% |
| 1,060,156 | 962,939 | 862,991 | 794,985 | 730,060 | 624,974 | 570,819 |
| 245,829 | 215,725 | 178,659 | 165,676 | 153,270 | 135,970 | 119,018 |
| 14,699 | 14,053 | 13,109 | 11,223 | 9,836 | 9,419 | 8,931 |
| 4,105 | 3,681 | 3,180 | 2,367 | 1,888 | 1,855 | 1,802 |
| 4,752 | 4,102 | 3,434 | 2,970 | 2,372 | 2,367 | 2,267 |
| 3,896 | 4,023 | 4,101 | 3,798 | 3,034 | 2,361 | 2,373 |
| 1,768 | 2,072 | 2,482 | 2,840 | 3,188 | 3,400 | 1,622 |
| 24,571 | 17,196 | 15,001 | 10,610 | 4,086 | 9,604 | 13,646 |
| 14,019 | 10,043 | 8,737 | 6,300 | 3,346 | 5,404 | 7,197 |
| 1.03% | .82% | .81% | .63% | .37% | .68% | 1.00% |
| 15.6% | 12.7% | 12.4% | 9.8% | 5.5% | 9.0% | 12.5% |
| 3.56 | 2.55 | 2.22 | 1.60 | .85 | 1.38 | 1.85 |
| 10,707 | 8,855 | 5,900 | 3,462 | 514 | 2,586 | 4,443 |
| 3,312 | 3,074 | 2,837 | 2,838 | 2,832 | 2,818 | 2,754 |
| .84 | .78 | .72 | .72 | .72 | .72 | .72 |
| 22,343 | 13,648 | 13,422 | 12,126 | 25,876 | 16,824 | 19,093 |
| 9,472 | 4,278 | 15,184 | 4,733 | 13,998 | 2,944 | 1,692 |
| 129,720 | 107,507 | 98,584 | 83,518 | 72,753 | 60,613 | 58,624 |
| 53,043 | 46,067 | 36,756 | 35,251 | 35,044 | 48,708 | 31,715 |
| 1.53 | 1.60 | 1.45 | 1.52 | 1.55 | 2.13 | 1.57 |
| 343,692 | 301,439 | 298,300 | 271,400 | 264,183 | 227,051 | 213,610 |
| 54,291 | 48,532 | 50,476 | 52,736 | 52,404 | 45,951 | 39,297 |
| 33,954 | 36,428 | 38,895 | 41,125 | 43,575 | 44,800 | 26,100 |
| 56,151 | 49,622 | 51,182 | 39,852 | 38,785 | 29,352 | 27,858 |
| 1,776 | 2,085 | 129 | 23 | — | — | — |
| 89,888 | 79,153 | 70,284 | 64,384 | 60,886 | 60,098 | 57,432 |
| 22.79 | 20.08 | 17.83 | 16.34 | 15.46 | 15.34 | 14.68 |
| 3,944 | 3,942 | 3,941 | 3,941 | 3,939 | 3,917 | 3,911 |
| 18 ³ / ₈ - 10 ¹ / ₄ | 14 ⁵ / ₈ - 7 ¹ / ₄ | 15 ¹ / ₄ - 10 ³ / ₈ | 21 ¹ / ₄ - 11 ³ / ₈ | 22 ³ / ₄ - 15 ¹ / ₄ | 24 ¹ / ₂ - 15 ³ / ₄ | 27 ³ / ₄ - 19 ¹ / ₈ |
| 157 | 156 | 155 | 154 | 156 | 149 | 139 |
| 69 | 65 | 63 | 56 | 53 | 51 | 50 |
| 31 | 25 | 22 | 19 | 18 | 13 | 6 |
| 44 | 39 | 38 | 34 | 33 | 28 | 21 |
| — | — | — | — | — | — | — |
| 2,870 | 2,762 | 2,728 | 2,674 | 2,655 | 2,460 | 2,212 |
| 4,805 | 4,419 | 4,176 | 3,575 | 3,322 | 3,040 | 2,968 |
| 339 | 279 | 261 | 236 | 227 | 162 | 76 |
| 27 | 23 | 22 | 20 | 18 | 14 | 9 |
| — | — | — | — | — | — | — |
| 8,041 | 7,483 | 7,187 | 6,505 | 6,222 | 5,676 | 5,265 |

The Stop & Shop Companies, Inc. and Subsidiaries
Consolidated Balance Sheets

| Assets | February 3, 1979 (In Thousands) | January 28, 1978 (In Thousands) |
|--|---|---|
| Current assets: | | |
| Cash | \$ 8,050 | \$ 6,881 |
| Marketable securities (at cost, approximating market) | 21,378 | 24,968 |
| Accounts receivable | 11,811 | 8,331 |
| Inventories, at the lower of cost or market | 172,395 | 143,669 |
| Prepaid expenses | 3,795 | 1,987 |
| Total current assets | 217,429 | 185,836 |
| Fixed assets, at cost (Notes 1 and 2): | | |
| Land | 9,955 | 10,112 |
| Buildings and improvements | 94,225 | 94,180 |
| Fixtures, machinery and equipment | 112,094 | 104,324 |
| | 216,274 | 208,616 |
| Less accumulated depreciation and amortization | 84,984 | 82,336 |
| | 131,290 | 126,280 |
| Leasehold improvements at cost less accumulated amortization | 15,175 | 15,443 |
| Net fixed assets | 146,465 | 141,723 |
| Property under capital leases, less accumulated amortization (Note 10) | 68,345 | 69,658 |
| Other assets: | | |
| Notes receivable, and other | 2,463 | 2,562 |
| Deferred charges | 1,272 | 1,575 |
| Total other assets | 3,735 | 4,137 |
| | \$435,974 | \$401,354 |

| Liabilities and Stockholders' Equity | February 3, 1979 (In Thousands) | January 28, 1978 (In Thousands) |
|--|---|---|
| Current liabilities: | | |
| Current portion of long-term debt | \$ 5,073 | \$ 1,385 |
| Current portion of capitalized lease obligations | 3,294 | 3,610 |
| Accounts payable | 91,741 | 72,885 |
| Accrued expenses | 25,480 | 21,933 |
| Federal income taxes | 6,339 | 4,798 |
| Total current liabilities | <u>131,927</u> | <u>104,611</u> |
| Deferred credits: | | |
| Federal income taxes (Note 6) | 6,903 | 6,674 |
| Other | 727 | 769 |
| Total deferred credits | <u>7,630</u> | <u>7,443</u> |
| Long-term debt (Note 2): | | |
| Mortgage notes payable | 49,460 | 50,864 |
| Other notes payable | 59,068 | 62,746 |
| Total long-term debt | <u>108,528</u> | <u>113,610</u> |
| Obligations under capital leases (Note 10) | 70,622 | 70,636 |
| Stockholders' equity: | | |
| Preferred stock; authorized 500,000 shares, none issued or outstanding | — | — |
| Common stock par value, \$1 per share; authorized 7,500,000 shares, issued 4,092,412 shares and 4,057,473 shares, respectively (Note 3) | 4,092 | 4,057 |
| Capital in excess of par value of capital stock (Note 5) | 15,860 | 15,495 |
| Retained earnings (Note 2) | 98,622 | 86,809 |
| | <u>118,574</u> | <u>106,361</u> |
| Less cost of 75,373 shares in treasury | 1,307 | 1,307 |
| Total stockholders' equity | <u>117,267</u> | <u>105,054</u> |
| Commitments and contingencies (Notes 8, 10 and 12) | | |
| | <u>\$435,974</u> | <u>\$401,354</u> |

Consolidated Statements of Earnings and Retained Earnings

| | 53 Weeks Ended February 3, 1979 (In Thousands) | 52 Weeks Ended January 28, 1978 (In Thousands) |
|--|--|--|
| Retail sales | \$1,762,144 | \$1,611,569 |
| Cost and expenses: | | |
| Cost of goods sold, buying and warehousing costs | 1,363,896 | 1,253,299 |
| Selling, store operating and administrative expenses | 331,966 | 301,242 |
| Depreciation and amortization (Note 1) | 18,688 | 17,575 |
| Amortization of property under capital leases (Note 10) | 5,528 | 5,281 |
| Interest on obligations under capital leases (Note 10) | 6,489 | 6,243 |
| Interest on mortgages | 4,483 | 4,408 |
| Other interest (net) | 3,417 | 4,372 |
| | 1,734,467 | 1,592,420 |
| Earnings before federal income taxes | 27,677 | 19,149 |
| Federal income taxes (Note 6) | 11,656 | 7,361 |
| Net earnings | 16,021 | 11,788 |
| Retained earnings at beginning of year | 86,809 | 78,995 |
| | 102,830 | 90,783 |
| Less cash dividends paid, \$1.05 and \$1.00 respectively | 4,208 | 3,974 |
| Retained earnings at end of year | \$ 98,622 | \$ 86,809 |
| Net earnings per average common share outstanding (Note 1) | \$ 4.00 | \$ 2.97 |

Consolidated Statements of Changes in Financial Position

| | 53 Weeks Ended February 3, 1979 (In Thousands) | 52 Weeks Ended January 28, 1978 (In Thousands) |
|---|--|--|
| Funds provided: | | |
| Net earnings | \$16,021 | \$11,788 |
| Items which do not use (provide) working capital: | | |
| Depreciation and amortization | 18,688 | 17,575 |
| Amortization of property under capital leases | 5,528 | 5,281 |
| Deferred federal income taxes | 229 | (170) |
| Funds provided from operations | 40,466 | 34,474 |
| Increase in long-term debt | 2,769 | 22,923 |
| Increase in obligations under capital leases | 4,520 | 12,141 |
| Exercise of employee stock options | 400 | 188 |
| | <u>\$48,155</u> | <u>\$69,726</u> |
| Used as follows: | | |
| Expenditures for fixed assets, net of book value of disposals | \$23,430 | \$21,604 |
| Expenditures for assets under capital leases, net | 4,215 | 12,663 |
| Cash dividends paid | 4,208 | 3,974 |
| Decrease in long-term debt | 7,851 | 7,766 |
| Decrease in obligations under capital leases | 4,534 | 3,292 |
| Other deferred credits | 42 | 42 |
| Other | (402) | 691 |
| Increase in working capital | 4,277 | 19,694 |
| | <u>\$48,155</u> | <u>\$69,726</u> |
| Changes in working capital: | | |
| Increase (decrease) in current assets: | | |
| Cash | \$ 1,169 | \$ 1,975 |
| Marketable securities | (3,590) | 19,424 |
| Accounts receivable | 3,480 | 451 |
| Inventories | 28,726 | 4,115 |
| Prepaid expenses | 1,808 | (16) |
| | <u>31,593</u> | <u>25,949</u> |
| Increase (decrease) in current liabilities: | | |
| Current portion of long-term debt | 3,688 | (120) |
| Current portion of capital lease obligations | (316) | (128) |
| Accounts payable | 18,856 | 3,602 |
| Accrued expenses | 3,547 | 1,103 |
| Federal income taxes | 1,541 | 1,798 |
| | <u>27,316</u> | <u>6,255</u> |
| Increase in working capital | <u>\$ 4,277</u> | <u>\$19,694</u> |

The Stop & Shop Companies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Accounting Policies:

Principles of consolidation:

The consolidated financial statements include the accounts for the parent company and all subsidiaries.

Fiscal year:

The fiscal year of the Company and its subsidiaries ends on the Saturday nearest to January 31. The years ended February 3, 1979 and January 28, 1978 consisted of 53 and 52 weeks respectively.

Inventories:

Inventories are valued at the lower of cost or market, using the retail method for inventories in retail stores and standard costs, approximating current costs, for inventories in warehouses.

Fixed assets and depreciation:

The Company capitalizes interest during construction of major real estate. This policy has no significant effects on the consolidated financial statements.

Depreciation of fixed assets is computed on the straight-line method at rates which are sufficient to amortize the costs over their estimated useful lives:

| | |
|------------------------|----------------|
| Buildings | 20 to 40 years |
| Equipment and fixtures | 3 to 15 years |
| Motor vehicles | 4 years |

Cost of leasehold improvements is amortized on the straight-line method over periods of 10 to 15 years, or the term of the lease, if shorter.

Federal income taxes:

For federal income tax purposes, accelerated methods of computing depreciation on buildings and equipment are used wherever applicable. Provision has been made for related deferred federal income taxes for this and other timing differences. Investment tax credits on assets placed in service during the year and job tax credits are accounted for as a reduction in the provision for income taxes.

Store opening and closing costs:

The Company follows a policy of charging off all store opening expenses as incurred. Losses resulting from store closings are provided for as soon as reasonably determinable.

Accounting for leased properties:

The Company is accounting for leased property in accordance with Financial Accounting Standards Board Statement Number 13.

Earnings per share:

The Company computes primary earnings per share based on the weighted average shares outstanding during the year (4,006,008 and 3,973,305 shares in 1978 and 1977 respectively). Fully diluted earnings per share in each of the years differed from the primary earnings per share by less than 3%.

2. Long-Term Debt

| | 1978 | 1977 |
|--|------------------|------------------|
| (In Thousands) | | |
| Mortgage notes, 4¾% to 10½%, (weighted average of 8.5% in 1978 and 1977) maturing annually at amounts averaging \$2,900,000 through 1984, \$2,300,000 from 1985 to 1999, and thereafter at smaller varying amounts through 2000. | \$ 52,472 | \$ 52,224 |
| Promissory note, 9.4%, maturing \$4,000,000 annually to 1993 and the balance payable in 1994. | 60,225 | 62,225 |
| Promissory note, 8.0%, maturing at increasing amounts through 1983. | 132 | 157 |
| Promissory note, 120% of prime rate, maturing in 1981. | 389 | 389 |
| Promissory note, 10.391%, maturing at increasing amounts through 1987. | 383 | — |
| | <u>113,601</u> | <u>114,995</u> |
| Less current portion | <u>5,073</u> | <u>1,385</u> |
| | <u>\$108,528</u> | <u>\$113,610</u> |

Long-term debt maturing in the period 1980-1983 is as follows:

| (In Thousands) | | |
|----------------|----------------|--|
| 1980 — \$6,900 | 1982 — \$7,032 | |
| 1981 — \$7,456 | 1983 — \$6,837 | |

The mortgage notes are secured by land, buildings and improvements costing approximately \$94,700,000 and by assignment of intercompany lease agreements.

Under the terms of the 9.4% Promissory Note, through 1994 working capital must be maintained at \$30,000,000 and certain restrictions with respect to payment of cash dividends or purchase or retirement of capital stock are in effect. As of February 3, 1979, approximately \$28,200,000 of retained earnings was not so restricted.

3. Stock Options

Options under the Company's Qualified Plan are granted at 100% of market value at date of grant and expire in five years. Options are exercisable in four equal cumulative annual installments commencing 18 months after grant date.

Changes are summarized as follows:

| | 1978 | | 1977 | |
|--------------------------------|----------|-----------------------------------|----------|-----------------------------------|
| | Shares | Grant Price | Shares | Grant Price |
| Outstanding, Beginning of year | 97,566 | 8 $\frac{7}{8}$ -16 $\frac{7}{8}$ | 129,145 | 8 $\frac{3}{4}$ -13 $\frac{1}{4}$ |
| Options granted | 2,000 | 13 $\frac{1}{4}$ | 5,000 | 15 $\frac{1}{8}$ |
| Expired or cancelled | (5,101) | 9 $\frac{1}{2}$ -16 $\frac{7}{8}$ | (20,422) | 9 $\frac{1}{2}$ -16 $\frac{7}{8}$ |
| Options exercised | (34,939) | 9 $\frac{1}{2}$ -13 $\frac{1}{4}$ | (16,157) | 9 $\frac{1}{2}$ -13 $\frac{1}{4}$ |
| Outstanding, end of year | 59,526 | 8 $\frac{7}{8}$ -16 $\frac{7}{8}$ | 97,566 | 8 $\frac{7}{8}$ -16 $\frac{7}{8}$ |
| Exercisable, end of year | 50,900 | 8 $\frac{7}{8}$ -16 $\frac{7}{8}$ | 69,641 | 8 $\frac{7}{8}$ -16 $\frac{7}{8}$ |
| Available for future grants | 54,882 | | 51,781 | |

4. Employee Stock Ownership Plan

During 1977, the Company adopted an employee stock ownership plan under the Tax Reform Act of 1976 which Act permits distribution of Company stock in an amount equal to 1% of the Company's investment which qualifies for and can be claimed by the Company as federal investment tax credit.

5. Capital in Excess of Par Value of Capital Stock

| | 1978 | 1977 |
|---|-----------------|-----------------|
| | (In Thousands) | |
| Balance at beginning of year | \$15,495 | \$15,323 |
| Add: | | |
| Excess over par value of proceeds from sale of capital stock to employees under stock option plan | 365 | 172 |
| | <u>\$15,860</u> | <u>\$15,495</u> |

6. Federal Taxes Charged to Income

The provision for federal income taxes includes deferred taxes as follows:

| | 1978 | 1977 |
|---|----------------|----------------|
| | (In Thousands) | |
| Accelerated depreciation | \$1,300 | \$ 992 |
| Timing differences related to store closing costs | (225) | 129 |
| Timing differences related to capital leases | (638) | (684) |
| Other | (208) | (607) |
| | <u>\$ 229</u> | <u>\$(170)</u> |

Investment and job tax credits further reduced the provision by \$1,939,000 in 1978 and \$1,738,000 in 1977.

The federal tax expense in 1978 and 1977 reflected effective rates of 42% and 39% respectively compared with the statutory federal income tax rate of 48%. The reasons for these differences are as follows:

| | 1978 | 1977 |
|--------------------------------|------------|------------|
| Tax expense at statutory rate | 48% | 48% |
| Investment and job tax credits | (6%) | (9%) |
| Effective tax rate | <u>42%</u> | <u>39%</u> |

State income taxes are included in selling, store operating and administrative expenses.

7. Wholly-Owned Realty Subsidiaries – Combined Balance Sheets

| | February 3, 1979 | January 28, 1978 |
|---|------------------|------------------|
| | (In Thousands) | |
| Assets: | | |
| Cash and receivables | \$ 169 | \$ 138 |
| Due from parent company | 21,324 | 18,293 |
| Fixed assets at cost: | | |
| Land | 9,492 | 9,649 |
| Buildings and improvements | 73,199 | 72,562 |
| | 82,691 | 82,211 |
| Less accumulated depreciation and amortization | 32,073 | 30,011 |
| | 50,618 | 52,200 |
| Other assets | 1,393 | 1,446 |
| | <u>\$73,504</u> | <u>\$72,077</u> |
| Liabilities: | | |
| Current portion of long-term debt | \$ 2,462 | \$ 1,358 |
| Accounts payable and accrued expenses | 791 | 1,291 |
| Deferred federal income taxes | 2,314 | 2,425 |
| Deferred other | 727 | 769 |
| Long-term debt, less current portion above (Note 2) | 42,685 | 43,539 |
| Parent company's equity: | | |
| Capital stock | 59 | 59 |
| Retained earnings | 24,466 | 22,636 |
| | <u>\$73,504</u> | <u>\$72,077</u> |

8. Retirement Plan

The Company's non-contributory retirement plans are available to all employees meeting minimum age and service requirements other than certain union employees covered by union-sponsored plans. The Company's policy is to fund retirement costs accrued, which in the current year, amounted to approximately \$1,503,500 (\$1,504,000 in 1977). As of January 1, 1978 total plan assets exceeded the actuarially computed value of vested benefits.

9. Replacement Cost Data (unaudited)

The Company's annual report on Form 10-K (a copy of which is available upon request) contains specific information on the year-end replacement cost of inventories and productive capacity (buildings, equipment and leaseholds, including those properties capitalizable under FASB13—See Note 10) and the approximate effect that replacement cost would have had on the computation of cost of goods sold and depreciation expense.

Current replacement costs are greater than the historical or conventional costs used in the accompanying statements, principally, because of the cumulative impact of inflation. These inflationary increases have traditionally been partially offset by operating efficiencies, changes in design and technological improvements which have increased productivity and contributed to increased sales.

Few standards have been established for replacement cost determinations and related disclosures. As a result, the amounts disclosed in the unaudited replacement cost note in the Form 10-K are based on substantial subjective judgments and estimates.

10. Leased Properties

At February 3, 1979 the Company had various non-cancellable leases in effect for store properties, office buildings, distribution centers, transportation and computer equipment.

The number of stores in operation owned or leased by the Company is as follows:

| | Owned | Leased | Total |
|----------------------------|-----------|------------|------------|
| Stop & Shop Supermarkets | 59 | 98 | 157 |
| Bradlees Department Stores | 12 | 64 | 76 |
| Other | 14 | 89 | 103 |
| | <u>85</u> | <u>251</u> | <u>336</u> |

During the last quarter of 1978 the Company changed its method of accounting for leases in accordance with Financial Accounting Standards Board Statement Number 13. The accompanying financial statements have been retroactively restated in accordance with the Statement for capitalization of leases on certain store properties, vehicles, and office and warehouse equipment.

The effects of the accounting change were to reduce net earnings for the year ended February 3, 1979 by \$569,000 (\$.14 per share) and for the year ended January 28, 1978 by \$634,000 (\$.16 per share). Retained earnings at January 29, 1977 were reduced by \$3,581,000 for the retroactive effect on prior years.

The components of "Property under capital leases" at the respective balance sheet dates are:

| | 1978 | 1977 |
|-------------------------------|-----------------|-----------------|
| | (In Thousands) | |
| Buildings and improvements | \$87,344 | \$85,388 |
| Equipment | 8,731 | 8,333 |
| Motor vehicles | 3,667 | 3,667 |
| | <u>99,742</u> | <u>97,388</u> |
| Less accumulated amortization | 31,397 | 27,730 |
| | <u>\$68,345</u> | <u>\$69,658</u> |

At February 3, 1979, minimum payments due under leases are as follows:

| | Capital Leases | Operating Leases |
|---|------------------|------------------|
| | (In Thousands) | |
| 1979 | \$ 11,478 | \$ 14,588 |
| 1980 | 11,187 | 14,227 |
| 1981 | 10,933 | 13,715 |
| 1982 | 10,633 | 13,064 |
| 1983 | 9,792 | 11,849 |
| Later Years | 98,962 | 93,099 |
| Total minimum lease payments (a) | <u>152,985</u> | <u>\$160,542</u> |
| Estimated executory costs | 13,136 | |
| Net minimum lease payments | <u>139,849</u> | |
| Imputed interest (rates ranging from 5.2% to 10.9%) | 65,933 | |
| Present value of net minimum lease payments | <u>\$ 73,916</u> | |

(a) Minimum payments for operating and capital leases have not been reduced by minimum sublease rentals of \$753,000 and \$1,946,000 respectively, due in the future under noncancelable subleases. They also do not include contingent rentals that may be paid under certain leases. Contingent rentals under capital leases amounted to \$247,000 in 1978 and \$226,000 in 1977.

Total rental expense for operating leases was:

| | 1978 | 1977 |
|--------------------|-----------------|-----------------|
| | (In Thousands) | |
| Minimum rentals | \$17,184 | \$16,041 |
| Contingent rentals | 1,561 | 1,506 |
| Sublease rentals | (1,626) | (1,493) |
| | <u>\$17,119</u> | <u>\$16,054</u> |

Contingent rentals are determined on the basis of a percentage of sales in excess of stipulated minimums for certain store facilities and on the basis of mileage for transportation equipment.

Most of the Company's leases provide that the Company pay taxes, maintenance, insurance, and certain other operating expenses.

Management expects that in the normal course of business leases that expire will be renewed or replaced by other leases.

Accountants' Report

11. Summary of Quarterly Results (unaudited) and Segment Information

The quarterly results are included on page 20 with the Summary of Sales and Operating Profit Contribution by Major Segments.

12. Contingent Liabilities – Litigation

The Company has been made a defendant, together with other major retail food companies and others, in two civil antitrust actions, one of which purports to be a class action, brought by various cattle feeders and producers. The Company has also been named, but never served, as a defendant in a similar action. The plaintiffs allege that the defendants unlawfully conspired to restrain, unreasonably trade in and to fix the price of cattle and fresh, frozen and processed beef. The plaintiffs seek unspecified damages, which they ask to be trebled, injunctions against the alleged activities, costs and attorneys' fees. These actions, together with a number of other cases in which the Company is not a defendant, were consolidated for pretrial discovery purposes. In December, 1977 and February, 1978, several of the consolidated cases, including each of the cases referred to above in which the Company has been named or made a defendant, were dismissed with prejudice on the basis of a recent United States Supreme Court decision. The plaintiffs have subsequently appealed the dismissals. In the opinion of legal counsel the likelihood of the plaintiffs' prevailing in the appeals is remote. In any event, the Company believes there are good and meritorious defenses to each of the actions in which it has been named or made a defendant and that the resulting liability, if any, will not materially affect the financial condition of the Company.

The Board of Directors and Stockholders
The Stop & Shop Companies, Inc.:

We have examined the consolidated balance sheets of The Stop & Shop Companies, Inc. and subsidiaries as of February 3, 1979 and January 28, 1978, and the related consolidated statements of earnings and retained earnings and changes in financial position for the 53 weeks and 52 weeks, respectively, then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Stop & Shop Companies, Inc. and subsidiaries at February 3, 1979 and January 28, 1978, and the results of their operations and the changes in their financial position for the 53 weeks and 52 weeks, respectively, then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for capital leases as discussed in note (10) to the consolidated financial statements.

Peat, Marwick, Mitchell & Co.

Boston, Massachusetts Peat, Marwick, Mitchell & Co.
March 19, 1979

Directors



Directors of The Stop & Shop Companies, Inc., from left, standing: Albert S. Frager, Norman L. Cahners, Carol R. Goldberg, William F. Pounds, William W. Wolbach, Robert J. Levin, Julian I. Edison. Seated, same order: Donald A. Gannon, Irving W. Rabb, Sidney R. Rabb, Avram J. Goldberg, Norman S. Rabb. Not pictured: Clifton B. Cox, Lloyd D. Tarlin.

Norman L. Cahners

Chairman of the Board and Chief Executive Officer,
Cahners Publishing Company

Clifton B. Cox

Vice Chairman, The Greyhound Corporation and
Chairman, Armour and Company –
Food and Consumer Products

Julian I. Edison

Chairman of the Board, Edison Brothers Stores, Inc. –
Specialty Retail Stores

Albert S. Frager

Senior Vice President, Treasurer and
Chief Financial Officer of the Company

Donald A. Gannon

Retired; formerly President of the Company

Avram J. Goldberg

President and Chief Operating Officer of the
Company

Carol R. Goldberg

Senior Vice President of the Company

Robert J. Levin

Senior Vice President of the Company

William F. Pounds

Dean, Alfred P. Sloan School of Management,
Massachusetts Institute of Technology

Irving W. Rabb

Vice Chairman of the Board and Chairman of the
Executive Committee of the Company

Norman S. Rabb

Retired; formerly Vice Chairman of the Board, Senior
Vice President and Assistant Treasurer of the Company

Sidney R. Rabb

Chairman of the Board and Chief Executive Officer of
the Company

Lloyd D. Tarlin

Retired; formerly Vice President of University Bank
and Trust Company, Senior Vice President of the
Company

William W. Wolbach

Chairman of the Board, The Boston Company, Inc. –
Financial Holding Company

Executive Committee:

Avram J. Goldberg, Irving W. Rabb, Sidney R. Rabb

Audit Committee:

William F. Pounds, Lloyd D. Tarlin, William W. Wolbach

Compensation Committee:

Norman L. Cahners, Clifton B. Cox, William W. Wolbach

Nominating Committee:

Clifton B. Cox, Avram J. Goldberg, William F. Pounds,
Irving W. Rabb, Sidney R. Rabb, William W. Wolbach

Officers

The Stop & Shop Companies, Inc.

Sidney R. Rabb, Chairman of the Board and Chief Executive Officer*
Irving W. Rabb, Vice Chairman of the Board and Chairman, Executive Committee*
Avram J. Goldberg, President and Chief Operating Officer*
Anthony DiNardo, Senior Vice President*
Albert S. Frager, Senior Vice President, Treasurer and Chief Financial Officer*
Carol R. Goldberg, Senior Vice President*
Robert J. Levin, Senior Vice President*
Frank A. Crowley, Vice President, Real Estate
Daniel Donegan, Vice President, Distribution
Ellen Zawel Dubin, Vice President, External Affairs
Stephen C. Espo, Vice President, Distribution and Information Systems
Harold E. Fine, Vice President, Construction and Engineering*
J. David Fine, Vice President, Labor Relations
Myles Hannan, Vice President
Samuel W.W. Mandell, Vice President, Law
Joseph D. McGlinchey, Vice President and Corporate Controller*
Arthur S. Robbins, Vice President, Accounting and Assistant Treasurer*
Bernard Solomon, Vice President, Civic, Government and Community Affairs
Richard F. Spears, Vice President*
Louis P. Steinberg, Vice President, Marketing Services

Stop & Shop Supermarket Company

Sidney L. Goldstein, President
Anast W. Giokas, Vice President, Sales
Timothy A. Hays, Vice President, Financial Management and Administration
Ralph J. Lordi, Vice President, Director of Grocery Purchasing
Edmund J. Rozumek, Vice President and General Manager, Boston Division
Lewis G. Schaeneman, Jr., Vice President and General Manager, Connecticut/New Jersey Division
Donald W. Stowbridge, Vice President, Operations Planning

Stop & Shop Manufacturing Company

Blaine B. Breidenstein, Vice President, Marlboro Meat Processing Facility
Spyros A. Gavris, Vice President, Marketing and Sales, Marlboro
Bernard A. Goldman, Vice President, External Sales Development
Jack Kushinsky, Vice President, Manufacturing Division
Rufus E. Lester, Jr., Vice President, Technical Affairs

E.L. Nason Co. Inc. and Fargo Potato Company

Stephen L. Cohen, General Manager

General Merchandise Companies

Bradlees Department Store Company

Harold Frank, President
Martin Baker, Vice President, Marketing
James Hyman, Vice President and General Merchandise Manager, Hardlines
Harry Kohn, Jr., Vice President and General Merchandise Manager, Apparel
C. Robert Peacock, Vice President, Financial Management and Administration

Medi Mart Drug Store Company

Philip J. Hiscock, Vice President and General Manager

Charles B. Perkins Tobacco Shops

Seymour L. Silverstein, Vice President and General Manager

Raxton Corp. (Off the RaxSM)

David Goldman, President
Alan Aronow, Vice President, Real Estate and Development
William Cass, Vice President, Merchandise Planning
Morton Friedman, Director
James McGowan, Executive Vice President, Finance and Treasurer

Annual Meeting:

May 30, 1979 at 1:30 P.M. at The First National Bank of Boston, First Floor Auditorium, 100 Federal St., Boston, Massachusetts

Transfer Agent:

The First National Bank of Boston

Registrar:

Boston Safe Deposit and Trust Company

Auditor:

Peat, Marwick, Mitchell & Co.

Counsel:

Goodwin, Procter & Hoar
Sherin & Lodgen

General Offices:

P.O. Box 369, Boston, MA 02101

Shares Traded on:

Boston Stock Exchange
New York Stock Exchange

Automatic Dividend Reinvestment Plan:

The Company's transfer agent offers an Automatic Dividend Reinvestment and Cash Stock Purchase Plan which gives shareholders a convenient, inexpensive method of purchasing additional shares of Stop & Shop stock with quarterly dividends and optional cash investments.

For further details write:

First National Bank of Boston
Automatic Dividend Reinvestment and Cash Stock Purchase Plan
P.O. Box 1681
Boston, MA 02105

Form 10-K:

Stockholders may obtain a copy of the Company's Form 10-K, to be filed with the Securities and Exchange Commission, without charge by application to: Director of Public Relations, The Stop & Shop Companies, Inc., P.O. Box 369, Boston, MA 02101.

*Corporate Officer

**The Stop & Shop
Companies**

